

Cameron Memorial Community Hospital, Inc.

Accountants' Report and Consolidated Financial Statements

September 30, 2011 and 2010



Cameron Memorial Community Hospital, Inc.

September 30, 2011 and 2010

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Independent Accountants' Report

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

We have audited the accompanying consolidated balance sheets of Cameron Memorial Community Hospital, Inc. (Hospital) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cameron Memorial Community Hospital, Inc. as of September 30, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

January 19, 2012

Cameron Memorial Community Hospital, Inc.

Consolidated Balance Sheets

September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,854,888	\$ 1,445,198
Patient accounts receivable, net of allowance; 2011 - \$2,564,000; 2010 - \$2,903,000	7,010,960	6,245,998
Other receivables	136,159	141,386
Inventory	784,010	718,187
Prepaid expenses	<u>326,473</u>	<u>331,372</u>
Total current assets	<u>11,112,490</u>	<u>8,882,141</u>
Assets Limited as to Use		
Externally restricted by donors	201,320	202,488
Held by trustee under bond indenture agreements	1,022,381	2,459,554
Internally designated for capital improvements	<u>1,697,910</u>	<u>1,661,753</u>
Total assets limited as to use	<u>2,921,611</u>	<u>4,323,795</u>
Investments	<u>12,231,089</u>	<u>13,475,758</u>
Property and Equipment, Net	<u>19,727,139</u>	<u>19,051,714</u>
Other Assets		
Deferred financing costs	176,122	293,537
Receivable from Cameron Hospital Foundation, Inc.	<u>309,191</u>	<u>—</u>
Total other assets	<u>485,313</u>	<u>293,537</u>
Total assets	<u>\$ 46,477,642</u>	<u>\$ 46,026,945</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,530,189	\$ 1,003,713
Accounts payable	1,098,949	1,433,077
Accrued salaries and related liabilities	1,562,019	1,378,274
Accrued expenses and other liabilities	642,229	661,957
Estimated amounts due to third-party payers	<u>211,860</u>	<u>24,701</u>
Total current liabilities	5,045,246	4,501,722
Long-Term Debt	<u>15,325,097</u>	<u>15,584,536</u>
Total liabilities	<u>20,370,343</u>	<u>20,086,258</u>
Net Assets		
Unrestricted	25,420,364	25,556,099
Temporarily restricted	<u>686,935</u>	<u>384,588</u>
Total net assets	<u>26,107,299</u>	<u>25,940,687</u>
Total liabilities and net assets	<u>\$ 46,477,642</u>	<u>\$ 46,026,945</u>

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Operations Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	\$ 39,076,151	\$ 39,628,528
Other	2,078,713	2,294,135
Net assets released from restrictions used for operations	<u>12,750</u>	<u>13,927</u>
Total unrestricted revenue, gains and other support	<u>41,167,614</u>	<u>41,936,590</u>
Expenses		
Salaries and wages	14,340,232	13,646,113
Payroll taxes and employee benefits	5,245,223	4,267,793
Purchased services and professional fees	8,643,941	8,826,606
Supplies	2,687,353	2,720,428
Repairs and maintenance	1,241,907	1,211,281
Utilities	598,432	564,321
Equipment rent	507,886	478,156
Insurance	350,781	365,737
Interest	456,421	484,313
Depreciation and amortization	2,287,106	2,218,488
Provision for uncollectible accounts	3,073,850	4,517,230
Other	<u>1,718,504</u>	<u>1,795,588</u>
Total expenses	<u>41,151,636</u>	<u>41,096,054</u>
Operating Income	<u>15,978</u>	<u>840,536</u>
Other Income (Expense)		
Investment return, interest and dividends	342,999	231,573
Realized gains on investments	111,527	63,404
Unrealized gains (losses) on trading securities	(662,413)	831,227
Contribution income	56,174	49,993
Change in fair value of interest rate swap agreement	<u>—</u>	<u>(122,389)</u>
Total other income (expense)	<u>(151,713)</u>	<u>1,053,808</u>
Excess (Deficiency) of Revenue Over Expenses	(135,735)	1,894,344
Change in fair value of interest rate swap agreement	<u>—</u>	<u>143,749</u>
Increase (Decrease) in Unrestricted Net Assets	<u><u>\$ (135,735)</u></u>	<u><u>\$ 2,038,093</u></u>

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Changes in Net Assets Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets		
Excess (deficiency) of revenue over expenses	\$ (135,735)	\$ 1,894,344
Change in fair value of interest rate swap agreement	<u>—</u>	<u>143,749</u>
Increase (decrease) in unrestricted net assets	<u>(135,735)</u>	<u>2,038,093</u>
Temporarily Restricted Net Assets		
Contributions received	313,795	5,795
Investment return, interest and dividends	1,302	1,337
Net assets released from restriction	<u>(12,750)</u>	<u>(13,927)</u>
Increase (decrease) in temporarily restricted net assets	<u>302,347</u>	<u>(6,795)</u>
Increase in Net Assets	166,612	2,031,298
Net Assets, Beginning of Year	<u>25,940,687</u>	<u>23,909,389</u>
Net Assets, End of Year	<u>\$ 26,107,299</u>	<u>\$ 25,940,687</u>

Cameron Memorial Community Hospital, Inc.

Consolidated Statements of Cash Flows Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Increase in net assets	\$ 166,612	\$ 2,031,298
Items not requiring cash		
Depreciation and amortization	2,287,107	2,218,488
Net realized and unrealized (gains) losses on investments	550,886	(894,631)
Change in fair value of interest rate swap agreement	—	(21,360)
Restricted contributions for acquisition of property and equipment	(309,191)	—
Changes in		
Patient accounts receivable, net	(764,962)	(1,240,308)
Accounts payable	(56,934)	(81,403)
Estimated amounts due to (from) third-party settlements	187,159	(698,753)
Other assets and liabilities	<u>(200,871)</u>	<u>(516,684)</u>
Net cash provided by operating activities	<u>1,859,806</u>	<u>796,647</u>
Investing Activities		
Proceeds from disposition of investments	7,126,991	7,202,326
Purchase of investments	(5,031,024)	(10,820,106)
Purchase of property and equipment	<u>(3,122,311)</u>	<u>(4,226,322)</u>
Net cash used in investing activities	<u>(1,026,344)</u>	<u>(7,844,102)</u>
Financing Activities		
Restricted contributions for acquisition of property and equipment	309,191	—
Principal payments on long-term debt	(381,210)	(8,165,563)
Principal payments on capital lease obligations	(784,489)	(551,876)
Proceeds from issuance of long-term debt	1,432,736	14,765,000
Payment upon termination of interest rate swap agreement	<u>—</u>	<u>(122,379)</u>
Net cash provided by financing activities	<u>576,228</u>	<u>5,925,182</u>
Increase (Decrease) in Cash and Cash Equivalents	1,409,690	(1,122,273)
Cash and Cash Equivalents, Beginning of Year	<u>1,445,198</u>	<u>2,567,471</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,854,888</u>	<u>\$ 1,445,198</u>
Supplemental Cash Flows Information		
Interest paid (net of capitalized interest)	\$ 456,421	\$ 488,600
Property and equipment in accounts payable	41,344	318,538

Cameron Memorial Community Hospital, Inc.
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Cameron Memorial Community Hospital, Inc. (Hospital), a not-for-profit organization, is a general acute care facility in Angola, Indiana with 25 licensed beds and associated ancillary service departments including outpatient services, home health care and an urgent care center in Angola, Indiana. The Hospital provides health care services primarily in the northeast portion of Indiana. Expenses relate to the provision of medical care and related general and administrative costs.

Cameron Medical Outreach, Inc. (CMO), a not-for-profit organization, is a community outreach organization providing health care needs of indigent individuals, medically underserved areas and the community as a whole. CMO primarily earns revenue from rental and leasing arrangements. The Hospital is the sole member of Cameron Medical Outreach, Inc. CMO began operations on October 1, 2007, and operates an assisted living facility (Cameron Woods) and medical office buildings in Angola, Indiana.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Cameron Memorial Community Hospital, Inc. (Hospital) and Cameron Medical Outreach, Inc. (CMO), the Hospital's wholly controlled subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital and CMO consider all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2011, cash equivalents consisted primarily of money market funds and certificates of deposit.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At September 30, 2011, the Hospital's and CMO's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC insured institutions.

Cash equivalents awaiting longer-term investing are included as investments in the consolidated balance sheets.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the entities bill third-party payers directly and bill the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Investments and Investment Return

Investments in equity securities, having a readily determinable fair value, and all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Assets Limited as to Use

Assets limited as to use include: (1) assets restricted by donors, (2) assets held by trustees under bond indenture agreements and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Inventory

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Property and Equipment

Property and equipment other than that received by donation, are reported at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred at September 30 was:

	<u>2011</u>	<u>2010</u>
Total interest expense incurred on borrowings for project	\$ 210,682	\$ 161,872
Interest income from investment of proceeds of borrowings for project	<u>—</u>	<u>—</u>
Net interest cost capitalized	\$ <u>210,682</u>	\$ <u>161,872</u>
Interest capitalized	\$ 210,682	\$ 161,872
Interest charged to expense	<u>456,421</u>	<u>484,313</u>
Total interest incurred	\$ <u>667,103</u>	\$ <u>646,185</u>

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the straight-line method.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Patient Accounts Receivable Financing

Under a credit financing agreement, qualified self-pay patients can receive interest-bearing loans from an independent financial institution to pay their receivable balances to the Hospital. The transfer of these receivables is with full recourse to the Hospital. At September 30, 2011 and 2010, these receivables totaled \$97,348 and \$188,518, respectively. The Hospital has made provision for accounts estimated to be uncollectible in the allowance for uncollectible accounts under these agreements.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered,

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and revised in future periods as adjustments become known.

Charity Care

The Hospital and CMO provide care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the entities do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipt of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Self-Insured Employee Health Claims

The Hospital is self-insured for its exposure to risk of loss from employee health claims. An estimated provision was accrued for employee health claims at September 30, 2011 and 2010, and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital and CMO have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and CMO are subject to federal income tax on any unrelated business taxable income.

The Hospital and CMO file tax returns in the Indiana and U.S. federal jurisdictions. With a few exceptions, the Hospital and CMO are no longer subject to Indiana and U.S. federal examinations by tax authorities for years before 2008.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Excess (Deficiency) of Revenue Over Expenses

The statements of operations include excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenue over expenses, consistent with industry practice, include the change in value of an interest rate swap agreement designated for hedge accounting.

Note 2: Charity Care

Charges excluded from revenue under the entities' charity care policies were \$989,080 and \$833,886 for 2011 and 2010, respectively.

Note 3: Net Patient Service Revenue and Estimated Amounts due to Third-Party Payers

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. On February 1, 2003, the Hospital elected critical access hospital (CAH) designation. As a CAH, inpatient and outpatient services are paid on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with a final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediaries.

Medicaid. For Medicaid inpatient services, the Hospital is reimbursed under a prospectively determined rate-per-discharge. Reimbursement for Medicaid outpatient services is based on predetermined rates. The differences between standard charges and reimbursement from this program are recorded as contractual adjustments.

Approximately 34% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The 2010 net patient service revenue increased approximately \$722,000 due to changes in previously estimated settlements and other reimbursement amounts from prior years.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

A summary of gross patient service revenue and contractual adjustments for the years ended September 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Patient service revenue		
Routine services	\$ 4,461,345	\$ 4,279,251
Inpatient	8,051,078	7,545,050
Outpatient	58,951,271	57,074,047
Charity care	<u>(989,080)</u>	<u>(833,886)</u>
Total patient service revenue	70,474,614	68,064,462
Contractual adjustments	<u>(31,398,463)</u>	<u>(28,435,934)</u>
Net patient service revenue	<u>\$ 39,076,151</u>	<u>\$ 39,628,528</u>

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables, net of contractals, from patients and third-party payers at September 30 was:

	<u>2011</u>	<u>2010</u>
Commercial insurance	20%	14%
Medicare	20	25
Medicaid	4	3
Self-pay	39	34
Blue Cross	11	8
Workers' compensation	2	1
Other	<u>4</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at September 30 include:

	2011	2010
Externally restricted by donors		
Cash	\$ <u>201,320</u>	\$ <u>202,488</u>
Held by trustee under bond indenture agreements		
Money market funds	\$ <u>1,022,381</u>	\$ <u>2,459,554</u>
Internally designated for capital improvements		
*Mutual funds	\$ <u>1,697,910</u>	\$ <u>1,661,753</u>

Long-Term Investments

Long-term investments at September 30 include:

	2011	2010
Money market funds	\$ 679,439	\$ 576,458
*Mutual funds	9,605,645	9,918,706
*Common stocks	1,852,982	2,801,575
U.S. Government agency securities	<u>93,023</u>	<u>179,019</u>
	\$ <u>12,231,089</u>	\$ <u>13,475,758</u>

* Information regarding the nature and risks of each major investment type based on activity or business sector is detailed in Note 18.

Total investment return is comprised of the following:

	2011	2010
Interest and dividend income (net of fees of \$79,321 and \$70,809)	\$ 344,301	\$ 232,910
Realized gains on sales of securities	111,527	63,404
Unrealized gains (losses) on trading securities	<u>(662,413)</u>	<u>831,227</u>
Total investment return	\$ <u>(206,585)</u>	\$ <u>1,127,541</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted net assets		
Other nonoperating income	\$ (207,887)	\$ 1,126,204
Temporarily restricted net assets	<u>1,302</u>	<u>1,337</u>
	<u>\$ (206,585)</u>	<u>\$ 1,127,541</u>

Note 6: Property and Equipment, Net

Property and equipment is recorded at cost, and at September 30 consist of:

	<u>2011</u>	<u>2010</u>	Estimated Useful Life
Buildings and improvements	\$ 21,207,437	\$ 20,988,993	5-50 years
Equipment	15,840,209	13,945,154	3-20 years
Construction in progress	<u>3,474,776</u>	<u>2,712,388</u>	
	40,522,422	37,646,535	
Less accumulated depreciation and amortization	<u>(24,708,601)</u>	<u>(22,543,015)</u>	
	15,813,821	15,103,520	
Land	1,043,373	1,043,373	
Land held for expansion	<u>2,869,945</u>	<u>2,904,821</u>	
Property and equipment, net	<u>\$ 19,727,139</u>	<u>\$ 19,051,714</u>	

Note 7: Note Payable to Bank

The Hospital has a \$2,000,000 revolving bank line of credit expiring in 2012. At September 30, 2011 and 2010, there were no borrowings against this line. The line is unsecured. Interest varies with the bank's prime rate and is payable monthly.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Note 8: Long-Term Debt

Long-term debt at September 30 consists of the following:

	<u>2011</u>	<u>2010</u>
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009A, dated December 29, 2009, 3.08%, payable in monthly installments of \$47,860 including interest, final payment due January 2013	\$ 9,522,514	\$ 9,782,495
Indiana Finance Authority Health Facility Revenue Bonds, Series 2009B, dated December 29, 2009, 3.25%, payable in monthly installments of \$23,225 including interest, final payment due January 2013	4,542,366	4,663,596
Various capital lease obligations, imputed interest rates ranging from 5.35% to 8.69%, expiring between 2013 and 2014, collateralized by leased equipment	<u>2,790,406</u>	<u>2,142,158</u>
	16,855,286	16,588,249
Less current maturities	<u>(1,530,189)</u>	<u>(1,003,713)</u>
	<u>\$ 15,325,097</u>	<u>\$ 15,584,536</u>

The Series 2009A and 2009B Revenue Bonds are collateralized by a mortgage and security agreement pledging essentially all of the Hospital's and CMO's property and equipment. In connection with the Series 2009A and 2009B Revenue Bonds, the entities are required to meet certain covenant requirements.

Property and equipment include the following property under capital leases:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 5,614,295	\$ 4,181,559
Less accumulated depreciation	<u>(3,795,799)</u>	<u>(2,903,989)</u>
	<u>\$ 1,818,496</u>	<u>\$ 1,277,570</u>

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2011, are as follows:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2012	\$ 417,644	\$ 1,271,539
2013	13,647,236	1,279,410
2014	—	488,164
2015	<u>—</u>	<u>—</u>
	<u>\$ 14,064,880</u>	3,039,113
Less amount representing interest		<u>(248,707)</u>
Present value of future minimum lease payments		2,790,406
Less current maturities		<u>(1,112,545)</u>
Noncurrent portion		<u>\$ 1,677,861</u>

Note 9: Derivative Financial Instrument

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the entities entered into an interest rate swap agreement for a portion of its floating rate debt. In 2010, this financial instrument was terminated, resulting in a payment by the entities of \$122,379 to the counterparty. The agreement provided for the entities and another party to exchange the difference between a variable and fixed interest rate (7.98%) on a notional amount of \$787,500 at September 30, 2009. The difference between the variable interest rate and the fixed interest rate was settled quarterly and reflected in interest expense. Management had designated the interest swap agreement as a cash flow hedging instrument and had determined the agreement qualified for hedge accounting. As a result, the agreement was recorded at its fair value with subsequent changes in fair value excluded from the excess of revenue over expenses.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purpose:

	<u>2011</u>	<u>2010</u>
Health care services		
MRI housing addition	\$ 176,424	\$ 182,100
Home health care	<u>201,320</u>	<u>202,488</u>
	377,744	384,588
Funds for expansion, receivable due from Cameron Hospital Foundation, Inc.	<u>309,191</u>	<u>—</u>
	<u>\$ 686,935</u>	<u>\$ 384,588</u>

During 2011 and 2010, net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes in the amounts of \$12,750 and \$13,927, respectively.

Note 11: Operating Leases

Noncancellable operating leases for certain diagnostic equipment and computer software and hardware expire in various years through September 2015. Rental payments include minimum rentals, plus contingent rentals based on the number of procedures performed using the equipment.

Future minimum lease payments at September 30, 2011, were:

2012	\$ 332,387
2013	255,100
2014	95,796
2015	<u>89,244</u>
	<u>\$ 772,527</u>

Rental expense for all operating leases at September 30 consisted of:

	<u>2011</u>	<u>2010</u>
Minimum rentals	\$ 366,084	\$ 366,084
Contingent rentals	<u>56,147</u>	<u>54,728</u>
	<u>\$ 422,231</u>	<u>\$ 420,812</u>

The Hospital and CMO own a medical office building and an oncology facility adjacent to the Hospital facility, along with an assisted living facility. The medical office building and equipment are included in property and equipment, with a cost of \$1,563,677 and accumulated depreciation of \$1,136,381 and \$1,087,346 at September 30, 2011 and 2010, respectively. The oncology facility is

Cameron Memorial Community Hospital, Inc.

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included in property and equipment with a cost of \$1,297,182 and accumulated depreciation of \$348,859 and \$316,168 at September 30, 2011 and 2010, respectively. The assisted living facility is also included in property and equipment, with a cost of \$4,647,736 and \$4,578,384 and accumulated depreciation of \$1,408,478 and \$1,285,667 at September 30, 2011 and 2010, respectively.

The entities lease space in the medical office building and a portion of the oncology facility to physicians and tenants under various operating leases, with terms of three years with three-year renewal options. The entities also operate an assisted living facility which leases apartments under cancellable month-to-month lease terms. Rental income under the term of these leases is included in other revenue and was \$1,569,062 and \$1,531,037 in 2011 and 2010, respectively.

Future minimum lease payments to be received at September 30, 2011, were:

2012

\$ 54,358

Note 12: Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$480,644 and \$449,901 for 2011 and 2010, respectively.

Note 13: Medical Malpractice

The Hospital and CMO participate in the Indiana Medical Malpractice Act which limits the maximum recovery for qualified medical malpractice claims to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the entities, with the balance paid by the state of Indiana Patient Compensation Fund.

The entities purchase medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional services occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the entities' claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 14: Self-Insured Employee Health Claims

The Hospital is self-insured for the first \$85,000 per occurrence and \$3,126,000 in aggregate of employee health claims. The Hospital purchases commercial insurance coverage above the self-insurance limits. The liability for employee health claims represents management's estimate of all incurred and reported claims plus estimated incurred but not reported claims based on the Hospital's reporting system. The carrying amount of the liability was approximately \$502,000 and \$509,000 as of September 30, 2011 and 2010, respectively. The liability is included in accrued

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

expenses and other liabilities in the accompanying balance sheets. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term.

Note 15: Functional Expenses

The Hospital and CMO provide general health care services to residents within their geographic location including pediatric care, cardiac intensive care and outpatient surgery. Expenses related to providing these services are as follows:

	<u>2011</u>	<u>2010</u>
Health care services	\$ 35,068,575	\$ 34,931,646
General and administrative	<u>6,188,572</u>	<u>6,164,408</u>
	<u>\$ 41,257,147</u>	<u>\$ 41,096,054</u>

Note 16: Related Party Transactions

Cameron Memorial Community Hospital, Inc. and Cameron Hospital Foundation, Inc. (Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to solicit contributions from the general public and to help support community and health care related educational events. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital. The Hospital provides accounting and financial management services to the Foundation and bills the Foundation \$16,000 annually.

The Foundation contributed approximately \$60,000 and \$50,000 to the Hospital in fiscal years 2011 and 2010, respectively. During the year ended September 30, 2011, the Foundation began a capital campaign for the construction of a new Hospital facility where all funds collected are raised specifically for the Hospital's capital campaign. As a result, the Hospital has recorded a receivable from the Foundation for \$309,191 at September 30, 2011. There were no significant intercompany receivables at September 30, 2010, and there were no significant payables at September 30, 2011 or 2010.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 13.

Employee Health Insurance

Estimates related to the accrual for self-insured employee health insurance are discussed in Notes 1 and 14.

Litigation

In the normal course of business, the entities are, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the entities' insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The entities evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current protracted economic decline continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital and CMO.

Current economic conditions have made it difficult for certain of the Hospital and CMO's patients to pay for services rendered. Adjustments to health insurance plans and rising unemployment rates, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital and CMO's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital and CMO's ability to meet debt covenants or maintain sufficient liquidity.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Note 18: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stocks, money market funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as a benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government treasury and agency securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2011 and 2010:

		2011			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value			
Investments					
Money market funds	\$	679,439	\$	679,439	\$ —
Equity mutual funds		5,686,283		5,686,283	—
Fixed income mutual funds		3,919,362		3,919,362	—
Common stocks					
Information technology		357,529		357,529	—
Industrials		265,592		265,592	—
Consumer discretionary		258,653		258,653	—
Financials		228,879		228,879	—
Health care		253,370		253,370	—
Energy		164,837		164,837	—
Consumer staples		121,657		121,657	—
Materials		81,499		81,499	—
Utilities		85,106		85,106	—
Telecommunications services		35,860		35,860	—
U.S. Government treasury and agency securities		93,023		—	93,023
Assets Limited as to Use					
Money market funds		1,022,381		1,022,381	—
Mutual fund		1,697,910		1,697,910	—

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

		2010			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Fair Value			
Investments					
Money market funds	\$	576,458	\$	576,458	\$ — \$ —
Mutual funds		9,918,706		9,918,706	— —
Common stocks		2,801,575		2,801,575	— —
U.S. Government treasury and agency securities		179,019		— 179,019	—
Assets Limited as to Use					
Money market funds		2,459,554		2,459,554	— —
Mutual fund		1,661,753		1,661,753	— —

Note 19: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report which is the date the financial statements were available to be issued.

The Hospital is currently in the final planning stages of a \$53,300,000 redevelopment project including the construction of a \$37,000,000 replacement hospital facility on its current facility site. A financing plan, which includes \$47,000,000 in new long-term debt in addition to assumed contributions and use of available Hospital investments to finance the project as well to refinance approximately \$14,000,000 in existing debt is also in final development. Current plans call for execution of the financing plan and initiation of the construction phase of the redevelopment project in fiscal year 2012. At September 30, 2011, the Hospital had expended approximately \$6,350,000 on initial planning activities and acquisition of land for the redevelopment project. In December 2010, the Hospital entered into a \$31,260,000 Guaranteed Maximum Price contract with a third-party to construct the replacement facility and initiated planning portions of the contract committing the Hospital to approximately \$130,000 in future expenditures under the contract, with the remaining contract balance cancellable at the Hospital's discretion. Of the \$130,000 of future expenditures committed, \$110,000 has been incurred and is included in the \$6,350,000 of expenditures above.

In addition to the above, the Hospital entered into a development agreement on August 30, 2011 and is concluding the ground lease for the construction of a Medical Office Building (MOB) on

Cameron Memorial Community Hospital, Inc.

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

land owned by the Hospital. The MOB will be constructed by the developer at no cost to the Hospital. Under the terms of the ground lease for an MOB primary site footprint of 14,752 square feet, the Hospital has agreed to lease land to the developer for a term of 50 years, with two renewal options of 25 years each. The Hospital will receive a net ground rent payment of \$7,855 per year for the first five years of the lease, adjusted thereafter every five years based on the consumer price index. The Hospital has also agreed to lease a yet-to-be-determined portion of the MOB for an initial term of 5 years with not less than two renewal terms of 5 years each. The Hospital has no master lease commitment associated with the MOB project. In conjunction with the initial phases of the construction of the MOB, the Hospital will perform certain improvements to the area surrounding the current Hospital location included within the \$37,000,000 replacement facility hospital project plan. As of the date of the Independent Accountant's Report, these costs were estimated to be approximately \$400,000 to \$500,000 and are expected to be completed during the year ended September 30, 2012.

The Hospital had no other firm commitments associated with the redevelopment project or the financing plan as of January 19, 2012.

Independent Accountants' Report on Supplementary Information

Board of Directors
Cameron Memorial Community Hospital, Inc.
Angola, Indiana

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual companies, and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

Fort Wayne, Indiana
January 19, 2012

Cameron Memorial Community Hospital, Inc.

Consolidating Balance Sheet

September 30, 2011

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,214,247	\$ 640,641	\$ —	\$ 2,854,888
Patient accounts receivable, net of allowance; 2011 - \$2,5640,000	7,010,960	—	—	7,010,960
Other receivables	527,585	352,752	(744,178)	136,159
Inventory	784,010	—	—	784,010
Prepaid expenses	<u>326,473</u>	<u>—</u>	<u>—</u>	<u>326,473</u>
Total current assets	<u>10,863,275</u>	<u>993,393</u>	<u>(744,178)</u>	<u>11,112,490</u>
Assets Limited as to Use				
Externally restricted by donors	201,320	—	—	201,320
Held by trustee under bond indenture agreements	1,022,381	—	—	1,022,381
Internally designated for capital improvements	<u>1,697,910</u>	<u>—</u>	<u>—</u>	<u>1,697,910</u>
Total assets limited as to use	<u>2,921,611</u>	<u>—</u>	<u>—</u>	<u>2,921,611</u>
Investments	<u>15,734,788</u>	<u>—</u>	<u>(3,503,699)</u>	<u>12,231,089</u>
Property and Equipment, Net	<u>16,482,985</u>	<u>3,244,154</u>	<u>—</u>	<u>19,727,139</u>
Other Assets				
Deferred financing costs	176,122	—	—	176,122
Receivable from Cameron Hospital Foundation, Inc.	<u>309,191</u>	<u>—</u>	<u>—</u>	<u>309,191</u>
Total other assets	<u>485,313</u>	<u>—</u>	<u>—</u>	<u>485,313</u>
Total assets	<u>\$ 46,487,972</u>	<u>\$ 4,237,547</u>	<u>\$ (4,247,877)</u>	<u>\$ 46,477,642</u>
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 1,530,189	\$ —	\$ —	\$ 1,530,189
Accounts payable	1,451,701	391,426	(744,178)	1,098,949
Accrued salaries and related liabilities	1,562,019	—	—	1,562,019
Accrued expenses and other liabilities	642,229	—	—	642,229
Estimated amounts due to third-party settlements	<u>211,860</u>	<u>—</u>	<u>—</u>	<u>211,860</u>
Total current liabilities	5,397,998	391,426	(744,178)	5,045,246
Long-Term Debt	<u>15,325,097</u>	<u>—</u>	<u>—</u>	<u>15,325,097</u>
Total liabilities	<u>20,723,095</u>	<u>391,426</u>	<u>(744,178)</u>	<u>20,370,343</u>
Net Assets				
Unrestricted	25,077,942	3,846,121	(3,503,699)	25,420,364
Temporarily restricted	<u>686,935</u>	<u>—</u>	<u>—</u>	<u>686,935</u>
Total net assets	<u>25,764,877</u>	<u>3,846,121</u>	<u>(3,503,699)</u>	<u>26,107,299</u>
Total liabilities and net assets	<u>\$ 46,487,972</u>	<u>\$ 4,237,547</u>	<u>\$ (4,247,877)</u>	<u>\$ 46,477,642</u>

Cameron Memorial Community Hospital, Inc.

Consolidating Statement of Operations Year Ended September 30, 2011

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Unrestricted Revenue, Gains and Other Support				
Net patient service revenue	\$ 39,076,151	\$ —	\$ —	\$ 39,076,151
Other	793,117	1,638,348	(352,752)	2,078,713
Net assets released from restrictions used for operations	<u>12,750</u>	<u>—</u>	<u>—</u>	<u>12,750</u>
Total unrestricted revenue, gains and other support	<u>39,882,018</u>	<u>1,638,348</u>	<u>(352,752)</u>	<u>41,167,614</u>
Expenses				
Salaries and wages	13,835,298	504,934	—	14,340,232
Payroll taxes and employee benefits	5,245,223	—	—	5,245,223
Purchased services and professional fees	8,581,496	62,445	—	8,643,941
Supplies	2,687,353	—	—	2,687,353
Repairs and maintenance	1,206,911	34,996	—	1,241,907
Utilities	486,422	112,010	—	598,432
Equipment rent	847,953	12,685	(352,752)	507,886
Insurance	350,781	—	—	350,781
Interest	456,421	—	—	456,421
Depreciation and amortization	2,164,295	122,811	—	2,287,106
Provision for uncollectible accounts	3,073,850	—	—	3,073,850
Other	<u>1,173,443</u>	<u>545,061</u>	<u>—</u>	<u>1,718,504</u>
Total expenses	<u>40,109,446</u>	<u>1,394,942</u>	<u>(352,752)</u>	<u>41,151,636</u>
Operating Income	<u>(227,428)</u>	<u>243,406</u>	<u>—</u>	<u>15,978</u>
Other Income (Expense)				
Investment return, interest and dividends	342,999	—	—	342,999
Realized gain on investments	111,527	—	—	111,527
Unrealized gain on trading securities	(662,413)	—	—	(662,413)
Contribution income	<u>56,174</u>	<u>—</u>	<u>—</u>	<u>56,174</u>
Total other income (expense)	<u>(151,713)</u>	<u>—</u>	<u>—</u>	<u>(151,713)</u>
Excess (Deficiency) of Revenue Over Expenses and Increase in Unrestricted Net Assets	<u>\$ (379,141)</u>	<u>\$ 243,406</u>	<u>\$ 0</u>	<u>\$ (135,735)</u>

Cameron Memorial Community Hospital, Inc.

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2011

	Cameron Memorial Community Hospital, Inc.	Cameron Medical Outreach, Inc.	Eliminating Entries	Totals
Unrestricted Net Assets				
Excess (deficiency) of revenue over expenses and increase in unrestricted net assets	\$ (379,141)	\$ 243,406	\$ —	\$ (135,735)
Temporarily Restricted Net Assets				
Contributions received	313,795	—	—	313,795
Investment return, interest and dividends	1,302	—	—	1,302
Net assets released from restriction	(12,750)	—	—	(12,750)
Increase in temporarily restricted net assets	302,347	—	—	302,347
Increase in Net Assets	(76,794)	243,406	—	166,612
Net Assets, Beginning of Year	25,841,671	3,578,686	(3,479,670)	25,940,687
Transfers From Subsidiaries	—	24,029	(24,029)	0
Net Assets, End of Year	\$ 25,764,877	\$ 3,846,121	\$ (3,503,699)	\$ 26,107,299